

1506-2596-77

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30 September 1977

MEMORANDUM FOR: Associate Deputy Director for Intelligence

THROUGH : Chief, Economic Implications Branch, OSR  
Deputy for Programs Analysis, OSR/ME  
Chief, Military-Economic Analysis Center, OSR  
Chief, OSR Administrative Staff  
Director of Strategic Research  
DDI Academic Coordinator

SUBJECT : Participation in Establishment of Master  
of Defense Economics Curriculum at [redacted]  
[redacted] University

STATINTL

1. In view of the recent, unfavorable publicity of the Agency's dealings with academia in general, and [redacted] University in particular, this memorandum detailing my past and planned future participation in a [redacted] project is submitted for your information.

2. In early August, I was contacted by Professor [redacted] (University) concerning establishment of a graduate program in Defense Economics to be taught at the Pentagon by [redacted] University. Because I had recently completed a Ph.D. dissertation on defense economics at [redacted] (and Professor [redacted] the chairman invited me to meet with him on the feasibility of establishing, and on the content of, such a curriculum. I agreed and subsequently met with him and [redacted] in mid-August. At this meeting, I agreed to draft such a curriculum and identify qualified professionals to teach the courses.

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3. Following the meeting, I informed Chief, Economic Implications Branch, Deputy for Programs Analysis, Chief, Military-Economic Analysis Center, and the DDI Academic Coordinator of my role in this venture.

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4. On 29 September, I met again with Professors [redacted] and delivered copies of my proposed curriculum (attached). The curriculum was discussed and accepted.

5. [redacted] asked if I would be willing to accompany him and [redacted] (Graduate School) to meet with Pentagon officials late in the week of 3 October to present the proposal. (My attendance being subject to the Dean's approval.) I agreed.

6. This project was conceived and initiated by the University, and not by myself or any other Agency employee. The project is not being undertaken for the Agency, but rather for the benefit of the University. My participation has been on a "no compensation" basis and will remain so, at least until the program has been established. At that time, I hope to teach one or more of the courses (during non-duty hours). Finally, all of those concerned at [redacted] are cognizant of my Agency affiliation.

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[redacted]  
Analyst  
Economic Implications Branch  
SR/ME

Attachment:  
As Stated

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Distribution:

Original + 1 - Addressee  
1 - DC/PROGRAMS/ME  
1 - Chief/ME  
1 - Chief/Administrative Staff, OSR  
1 - D/OSR STATINTL  
1 - DDI Academic Coordinator

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[REDACTED] SR/ME/E

1 - Chrono

OSR/ME/E [REDACTED] (5238) 30 Sept. 1977

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Master of Defense Economics

Core Courses

- Microtheory
- Macrotheory
- Mathematics of Static Economic Models
- Statistics for Economists
- Defense Economics
- Public Finance
- Defense Planning

Electives

- The Burden and Economic Impact of Defense
- History of Defense Economics
- Defense Industrial Organizations
- Defense Economics in the Soviet Union
- Decision Theory for Defense Planners
- The Weapons System Acquisition Process
- Selected Issues in Defense Economic Theory

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Defense Economics

A survey course of the scope and content of defense economics. The history of defense economic theory. Defense spending and the economy: the burden and impact of defense, defense industrial organization. Resource allocation within the Department of Defense: defense planning, the weapons system acquisition process.

Suggested Readings:

Kennedy - The Economics of Defense

Owen & Schultze - Setting National Priorities, The Next Ten Years

Adams - "The Military Industrial Complex: A Market Structure Analysis" AER  
May 1972

Crecine - Defense Budgeting: Organizational Adaptation to External Constraints

Hitch - Decision-Making for Defense

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Defense Planning

The allocation of resources to and within the US Department of Defense (DoD). The theory of an "optimal defense budget" based on the Planning, Programming, and Budgeting System (PPBS). The budget formulation process within the DoD. The effects of institutional interest groups and limited options and external constraints on the size and composition of post WW II US defense budgets.

Suggested Readings:

Hitch & McKean - The Economics of Defense in the Nuclear Age

Crecine - Defense Budgeting: Organizational Adaptation to External Constraints

Enthovan & Smith - How Much is Enough? Shaping the Defense Programs 1961-69

Halperin - Bureaucratic Politics and Foreign Policy

Hitch - Decision-Making for Defense

Quade - Analysis for Military Decisions

Stromberg - The Internal Mechanisms of the Defense Budgeting Process, 1953-1968

Bulloch - Defense Contract Costing: The State of the Art

Fisher - Cost Considerations in Systems Analysis

Weidenbaum - The Economics of Peacetime Defense

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The Burden and Economic Impact of Defense

Burden vs. Impact. Defense in the US National Income and Product Accounts. Opportunity Cost. The effect of defense outlays on the performance of the US economy. Fiscal impact--effects on income and production. Financial impact--general influence on money and capital market conditions. Analysis of these impacts, their magnitude, timing and direction vis-a-vis federal stabilization policy. The burden of defense in the US and developing countries.

Suggested Readings:

- Dept. of Commerce - Defense Indicators
- Dept. of Commerce - Shipments of Defense-Oriented Industries
- Owen & Schultze - Setting National Priorities, The Next Ten Years
- Udis - The Economic Consequences of Reduced Military Spending
- Schultze - The Politics & Economics of Public Spending
- Russett - What Price Vigilance? The Burdens of National Defense
- US ACDA - The Economic Impact of Reductions in Defense Spending

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History of Defense Economics

What economists have written about defense from Adam Smith to the present. Smith, Ricardo, and Malthus. Marx and Engels. F.W. Hirst. Pigou and Keynes between the wars. Quade and Hitch in the post-war period.

Suggested Readings:

- Kennedy - The Economics of Defense
- Hirst - The Political Economy of War
- Stewart - Keynes and After
- Pigou - The Political Economy of War
- Hitch - Decision Making for Defense

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Defense Industrial Organizations

Compares and contrasts the industrial organizations of the "defense economy" with the economy as a whole. Particular emphasis on the extent and kind of competition, the bases of monopoly, and the large firm. Theory of industrial market structures and how they relate to performance.

Suggested readings: Standard texts on industrial organization

Melman (ed.) - The War Economy of the US: Readings in Military Industry and Economy

Pursell - The Military-Industrial Complex

Schiller (ed.) - Super-State: Readings in the Military-Industrial Complex

Dept. of Commerce - Shipments of Defense Oriented Industries

Dept. of Commerce - Defense Indicators

Adams - "The Military Industrial Complex: A Market Structure Analysis" AER May 1972

Kuznets - National Product in Wartime

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Defense Economics in the Soviet Union

Soviet defense economics as a factor in US military threat assessment--the intelligence function. The Soviet defense institutional structure. The defense planning process. Estimating Soviet defense expenditures. The economic impact and burden of Soviet defense spending.

Suggested Readings:

US Congress, JEC - Soviet Economy in a New Perspective (Compendium of Papers)

US Congress, JEC - Allocation of Resources in the Soviet Union and China  
June 1977

Trembl & Hardt - Soviet Economic Statistics

Steiner - Economic Methods for Military Threat Assessment

Lee - The Estimation of Soviet Defense Expenditures 1955-75, An Unconventional Approach

Gallagher - Soviet Decision-Making for Defense

Gregory - Soviet Economic Structure & Performance

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Decision Theory for Defense Planners

Linear and non-linear programming, game theory, decision analysis, and social choice with applications to weapons programs.

Suggested Readings:

Standard Texts  
Applications to be provided by instructor

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The Weapons System Acquisition Process

How a weapons concept becomes a weapons program.  
The research, development, test and evaluation (RDT&E)  
stages. The procurement stage. The recurring  
spares problem. The politics of a weapons system  
acquisition program.

Suggested Readings:

Armacost - The Politics of Weapons Innovation

Sapolsky - The Polaris System Development:  
Bureaucratic and Programmatic  
Success in Government

Kurth - "The Political Economics of Weapons  
Procurement: The Follow-on Imperative"  
American Economic Review May 1972

Hewlett - Nuclear Navy, 1946-1962

Fiorello - Estimating Life-Cycle Costs: A Case  
Study of the A-7D (Rand)

Nelson et. al. - A Weapon System Life Cycle  
Overview: The A-70 Experience  
(Rand)

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Selected Issues in Defense Economics Theory

This seminar will address in depth some of the more complex issues of defense economics, including:

- The measurement of quality change in formulating price indices for weapon categories.
- The economic impact of technology spillover from military RDT&E to the civilian economy.
- Relative productivity growth in defense and non-defense industries.
- Cost, capability, and effectiveness of weapon systems.
- The economic incentives for arms control.

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